

American Association of Exporters and Importers

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Comments of the American Association of Exporters and Importers on
“Pending, Job Creating Trade Agreements”
before the House Ways and Means Committee, Subcommittee on Trade

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A. Introduction and Overview

AAEI appreciates the opportunity to offer these comments on the upcoming series of hearings on “Pending, Job Creating Trade Agreements”, the first of which will be held by the House Ways and Means Committee on March 17, 2011.

AAEI has been a national voice for the international trade community in the United States since 1921. AAEI represents the entire spectrum of the international trade community across all industry sectors. Our members include manufacturers, importers, exporters, wholesalers, retailers and service providers to the industry, which is comprised of brokers, freight forwarders, trade advisors, insurers, security providers, transportation interests and ports. Many of these enterprises are small businesses seeking to export to foreign markets. AAEI promotes fair and open trade policy. We advocate for companies engaged in international trade, supply chain security, export controls, non-tariff barriers, import safety and customs and border protection issues. AAEI is the premier trade organization representing those immediately engaged in and directly impacted by developments pertaining to international trade. We are recognized as the technical experts regarding the day-to-day facilitation of trade.

B. AAEI’s Statement on Free Trade Agreements

AAEI has written this testimony to provide policymakers with practical reasons why the United States should pass the three pending free trade agreements (FTAs) with Colombia, Korea, and Panama. From both an import and export perspective, an expanding network of FTAs is necessary for U.S. companies to maintain international competitiveness.

a. FTAs Keep the United States Competitive

The current challenges posed by the difficult economic climate and the effects of increased global competition require U.S. companies (of all sizes) to focus on customs planning to reduce operational costs now more than ever.

Specifically, U.S. companies evaluate customs duties as an element of the total landed cost to fully consider raw material sourcing and global product distribution decisions. FTAs can be leveraged to reduce or eliminate customs duties (as well as reduced Customs administration fees), which improves cash flow and/or reduces above-the-line costs.

U.S. companies export a diverse range of products, including vast amounts of raw commodities such as timber and agriculture (e.g., wheat and corn). In addition, small, medium and large U.S. manufacturers export finished products such as petroleum derivatives, civilian aircraft, automobiles, medical supplies, pharmaceuticals, machinery and construction equipment. These finished products are often high-value products which require specialized skill, high-quality control and technology produced by American workers.

The United States is currently a signatory to 13 FTAs. Accordingly, these FTAs enable U.S. companies to export goods made by American workers (and technology) to reduce or eliminate the customs cost when shipping to these 13 foreign markets; thus, making the U.S. commodities and finished goods more competitive against foreign producers.

For instance, approximately 80% of U.S. exports to Colombia will receive duty free treatment upon entry into force, including: certain agricultural goods, construction equipment, aircraft and parts, automobile parts, fertilizers and agro-chemicals, information technology equipment, medical supplies and equipment, and pharmaceuticals. For these goods, U.S. companies will immediately become more competitive in the Colombian market.

For U.S. importers, FTAs also play an important role in providing U.S. companies with the ability to source low value components duty-free (or reduced duty) from other countries. The FTAs affect on operating income is immediate to U.S. companies, who can then produce cost-competitive products for consumption in the U.S. and abroad.

b. FTAs Help Many U.S. Companies

We believe it is important to note that FTAs benefit all major industry sectors. As such, there are a significant number of U.S. companies utilizing FTAs.

AAEI conducts an annual Benchmarking Survey asking trade compliance professionals over 200 questions about importing goods to and exporting goods from the United States. It is the most comprehensive survey conducted in the international trade industry. Some of the questions asked in the survey focus on FTAs. For example, one question asks "How much [customs] duty do you avoid annually by claiming NAFTA on US imports?" The significant plurality of respondents (61%) claim duty-free entry on NAFTA importations, of which 29% save more than \$1 million in duties. See, AAEI 2010 Benchmarking Survey Results.

Moreover, FTAs have become a permanent feature of the U.S. trade environment. In AAEI's 2010 Benchmarking Survey, only 29% of the respondents indicated that they do not use any FTAs. Among the most popular FTAs are: NAFTA (42%), Australia (29%), Israeli (21%), Singapore (18%), Chile (15%), and DR-CAFTA (11%).

c. FTAs Create Supply Chain Efficiencies and Flexibility

Global supply chains are constructed (and modified) based upon multiple variables that change quickly -- attractiveness of low-cost manufacturing locations, ability to produce large volumes economically, emerging market demand and rising commodity prices affecting transportation costs. U.S. companies need to build efficient and flexible supply chains that can help tame complexity, save money, and serve customers better.

More than just reducing customs duties, FTAs enable supply chain planners to more rapidly respond to changing market conditions (some of which are listed above). FTAs create faster and more predictable trade operations as foreign Customs and Commerce authorities are required to modernize their infrastructure and standardize their import and export regulations for FTA implementation. In many ways, the

adoption of common international tax principles and rules by tax authorities is a comparable experience. FTAs, like the international tax treaties, allow U.S. companies to make informed decisions on how to best plan, manage and operate international supply chains.

d. The United States Has Experience with FTAs

FTAs have been part of U.S. law since 1979 when Congress passed the U.S.- Israel Free Trade Agreement. As a result, the U.S. trade community has a significant experience in using FTAs and how to comply with the rules adopted with each new FTA. The experienced trade compliance functions provide U.S. companies an additional advantage to more effectively utilize FTA duty preferences than foreign competitors.

The U.S. spends considerable time developing each FTA, which results in complex and varying Rules of Origin. However, U.S. companies utilizing FTAs have developed robust trade compliance programs so that the risk for abuse of the duty preference or non-compliance is minimal. The proliferation of automated global trade management solutions further simplifies the data gathering process and Rule of Origin analysis.

C. Conclusion

In conclusion, we appreciate the opportunity to submit these comments and hope that the House Ways and Means Committee, Subcommittee on Trade carefully considers passing the outstanding Free Trade Agreements. We hope this paper helps to reaffirm the importance and impact that FTAs can have on U.S. companies to realize substantial advantages in the immediate future and over the long term. AAEI looks forward to working with the Committee on this important issue.